



# Department of Justice

United States Attorney Glenn T. Suddaby

Northern District of New York

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## **TWO FORMER OFFICERS OF THE PENN TRAFFIC COMPANY INDICTED IN CONNECTION WITH ACCOUNTING/SECURITIES FRAUD SCHEME**

SYRACUSE, NY – Glenn T. Suddaby, United States Attorney for the Northern District of New York and John F. Pikus, Special-Agent-in-Charge of the Albany Division of the Federal Bureau of Investigation, announced today an indictment of two former executives of The Penn Traffic Company in an ongoing accounting/securities fraud investigation. Linda J. Jones, age 48, of Reynoldsville, PA and Leslie H. Knox, age 61, of Titusville, FL, have been charged with conspiracy to commit securities fraud and mail fraud, a substantive securities fraud violation, and causing false filings to be made by Penn Traffic to the United States Securities and Exchange Commission (“SEC”). If convicted, the defendants each face a sentence of up to twenty (20) years of incarceration and up to \$5,000,000 in fines on the most serious charges.

According to the indictment, which was unsealed today, Jones—a former Vice President with Penn Traffic—and Knox—the company’s former Senior Vice President and Chief Marketing Officer—led a scheme to inflate reported income and other financial indicators of Penn Traffic. In an effort to ensure that their business units met certain internal budget benchmarks, the defendants caused Penn Traffic to prematurely recognize “promotional allowances” paid to the company from vendors. “Promotional allowances” include slotting fees, rebates, vendor allowances, and other fees paid to Penn Traffic in exchange for a variety of promotional, advertising, and marketing services provided to promote its vendors’ products. In furtherance of this scheme, the defendants and subordinates acting at their direction, submitted false and misleading documentation to Penn Traffic’s accounting department. As a result, the company booked income relating to promotional allowances prior to the performance of certain required contingencies, contrary to Generally Accepted Accounting Principles and internal Penn Traffic procedures.

As charged in the indictment, the accounting fraud scheme was carried out by Jones and Knox, and subordinates and vendors acting at their behest, from 2000 through 2003. During that time period, the defendants caused Penn Traffic to “pull forward” or prematurely report more than \$9 million in operating income. The misstatements of income and related financial information were included on official quarterly and annual filings made by the company to the SEC, and eventually released to the investing public.

The investigation of accounting fraud at Penn Traffic is continuing. The Securities and Exchange Commission is simultaneously announcing an independent civil securities action against Linda J. Jones and Leslie H. Knox. A related investigation of fraudulent accounting practices at the Penny Curtiss Baking Co., a subsidiary of Penn Traffic, resulted in the entry of a guilty plea, on September 29, 2005, by Former Director of Operations Michael J. Lawler, age 57 of Solvay, New York, on felony wire fraud charges.

United States Attorney Suddaby stated that his Office and the Federal Bureau of Investigation are committed to decisive investigation and prosecution of those involved in accounting and securities fraud schemes that victimize investors and employees of corporate entities doing business in the Northern District of New York. “The Department of Justice will continue to work cooperatively with the Securities and Exchange Commission to further the goals of the President’s Corporate Fraud Task Force—to deter corporate malfeasance, protect the jobs of hard-working Americans, and restore confidence to financial markets.”

Information for possible victims relating to the criminal proceedings against Linda J. Jones, Leslie H. Knox, and Michael J. Lawler will be available in the “Cases” section of the website of the Victim-Witness Unit of the U.S. Attorney for the Northern District of New York— [www.usdoj.gov/usao/nyn/vw](http://www.usdoj.gov/usao/nyn/vw). Because of the large number of potential investor or creditor victims in these cases, the U.S. Attorney’s Office will seek the permission of the United States District Court to provide victim information and notifications exclusively through this website and/or through publication.

This case was investigated by the Albany Division of the Federal Bureau of Investigation with the cooperation of the Securities and Exchange Commission. Assistant United States Attorneys Stephen C. Green and Thomas A. Capezza are handling the criminal prosecution. Further inquiries may be made to First Assistant United States Attorney Andrew T. Baxter at 315-448-0672.

The indictment contains mere accusations and the defendants are presumed not guilty unless and until proven guilty beyond a reasonable doubt.

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